Postal Regulatory Commission
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BEFORE THE

POSTAL REGULATORY COMMISSION

Institutional Cost Contribution	)	Docket No. RM2017-1
Requirement for Competitive Products	)	

REPLY COMMENTS OF
PARCEL SHIPPERS ASSOCIATION,
AMERICAN CATALOG MAILERS ASSOCIATION,
CONTINUITY SHIPPERS ASSOCIATION,
DATA & MARKETING ASSOCIATION,
ENVELOPE MANUFACTURERS ASSOCIATION,
IDEAALLIANCE + EPICOM,
PSI SYSTEMS, AND STAMPS.COM
("MARKET DOMINANT MAILERS AND
COMPETITIVE SHIPPERS")
(March 9, 2017)

The Market Dominant Mailers and Competitive Shippers (MDMCS) file these reply comments pursuant to Order No. 3624. We urge the Commission to reject United Parcel Service's (UPS) proposal to increase the minimum contribution required by competitive products by more than 400 percent, from 5.5 percent to 29.4 percent of institutional costs, an amount that is nearly double the actual contribution made by competitive products in FY 2016.[1]

UPS's proposal would require substantial competitive product price increases – well into double-digit percentages in an attempt to increase contribution. These price increases would, in turn, jeopardize the Postal Service's position in the growing package delivery market and the large and growing contribution that competitive products make to help pay for Postal Service institutional costs to the detriment of the Postal Service, the members of our associations, and our companies.

Furthermore, the comments submitted by other parties in this rulemaking reinforce our view that the minimum contribution should be eliminated or, at least, not

[1] Docket No. 2017-1, Initial Comments of United Parcel Service, Inc. on Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products (UPS Comments) at 35.

increased. While UPS was alone in advocating for a minimum contribution requirement that would require immediate and substantial price increases, the views of our broad coalition of mailers and shippers were also shared by the Public Representative, the National Association of Letters Carriers, Amazon Fulfillment Services, Inc., and the Postal Service.

Even the two associations – the Greeting Cards Association (GCA) and the Association of Postal Commerce (PostCom) – that support continuing a minimum contribution requirement urge use of a moderate or conservative approach in doing so.[2] PostCom, wisely, counseled against basing a minimum contribution on proportionality to other aspects of competitive product finances, such as suggested by UPS.[3]

> While use of proportionality based on current contribution or revenue may appear intuitively appealing, PostCom cautions against using such an approach. A sudden large change in this requirement could prove disruptive. For instance, if the USPS were to see a sudden decline in shipping volumes due to some exogenous factor, it may feel compelled to increase prices beyond the point where it can compete effectively. Such an outcome would be harmful, not only to users of the USPS' competitive products, but it would indirectly harm users of market dominant products as well.

PostCom Comments at 6.

UPS's proposed proportional approach for setting the minimum contribution requirement smacks of fully distributed costing, a method that UPS has repeatedly proposed and which the Commission, and others, have repeatedly rejected.

Finally, UPS supports its proposals with criticisms of PRC-approved costing methods. UPS Comments at 28-33. These criticisms should not be considered here.

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[2] Docket No. 2017-1, Initial Comments of the Greeting Dard Association at 4 (GCA Comments); Docket No. 2017-1, Comments of the Association for PostCom at 2, 6-7 (PostCom Comments).

[3] While PostCom explicitly referenced proportionality based on current contribution and revenue, UPS advocated proportionality based upon attributable cost. UPS's proposal yields a much higher minimum contribution requirement than would PostCom's referenced proportionality based upon revenue or contribution. UPS Comments at 34-40.

This rulemaking is not about costing. The proper venue for reviewing purported costing anomalies and assessing proposed changes in costing methods is focused rulemakings where such costing issues will receive the appropriate level of analysis and scrutiny. One such proceeding concluded only three months ago. See, e.g., RM2016-2 Periodic Reporting (UPS Proposals One, Two, and Three). Costing proposals need to be presented in an appropriate forum and found to have merit. As in the recent ACR proceeding, that is not the case here. [4]

Conclusion

In closing, we concur with the views expressed in the initial comments of the Public Representative in this rulemaking:

> Under the current industry structure, there is no assurance that any action which might cause the Postal Service to raise its competitive prices will benefit anyone other than the current industry participants [competitors of the Postal Service] whose own rates may be able to track any upward movement in Postal Service rates, and who, by most measures, are quite profitable.
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> The competitors' package volumes are growing to such an extent that published reports indicate their meeting peak Christmas season deliveries posed increasing challenges. In contrast, the Postal Service's much less stable financial condition will tend to encourage the Postal Service to maximize its revenues from parcel deliveries, even absent any new rule on the part of the Commission raising the percentage share of contribution. In order for the Postal Service to underprice its rivals to gain market share, thus reducing revenues in the process, an adequate stream of revenues would be required in the first place. This is problematic in the case of the Postal Service. It also should be noted that there is simply too little margin for error in the Postal Service's pricing of competitive products to risk promulgating a codified minimum contribution level that might be too high and cause a loss of otherwise profitable volumes of competitive products. In this way, the Public Representative echoes the concerns of another Public Representative previously expressed in Docket No. RM2012-3 concerning the risk to the Postal Service of overpricing its

[4] *See e.g.,* Docket No. ACR 2016, Reply Comments of the United States Postal Service at 18 ("UPS uses its comments to continue to harp on ill-defined complaints about costing and the transparency of the costing methodologies. Many of [UPS's] claims are extremely misleading, because they are based upon convenient narratives, rather than actual analysis of the Postal Service's submission. In many respects, the UPS comments seem to be more an exercise in casting aspersions than identifying actual issues.").

competitive products. Furthermore, it would be unwise of the Postal Service to adjust competitive prices too frequently to maximize revenues from competitive products as advocated by some, since this would cause an increased level of uncertainty with its customers.[5]

For the above reasons, we urge the Commission to reject the proposals advanced by UPS in this rulemaking and eliminate the minimum contribution requirement.

Respectfully submitted,

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[5] Docket No. RM2017-1, Public Representative Comments in Response to Notice of Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, at 18 (citing PRC Docket No. RM2012-3, Comments of the Public Representative in Response to Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, April 9, 2012 at 4.)

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